

EXHIBIT C

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Transcript of Gautam Gowrisankaran

Friday, September 1, 2023

*United States, et al. v. JetBlue Airways Corporation
and Spirit Airlines, Inc.*

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1 testimony from JetBlue that says, we're looking more
2 like a legacy carrier than we used to be.

3 So it definitely has some attributes of a
4 low cost carrier, but it's looking a little more like
5 a legacy carrier. For instance, on long routes,
6 JetBlue has a first class product called Mint. And
7 you wouldn't expect low cost carriers necessarily to
8 have first class.

9 Q. Do you agree that JetBlue's differentiated
10 itself from other low cost carriers by offering not
11 only low fares, but also high quality service?

12 A. Well, there's two parts to that question.
13 Whether JetBlue is differentiating itself from other
14 low cost carriers. And I would say that, in general,
15 the airline industry is one where products
16 differentiate themselves, and where different
17 airlines differentiate themselves.

18 So one of my best friends swears by the
19 Cheez-Its on JetBlue. And his wife always has him on
20 a diet, I think. And when he flies JetBlue, he can
21 eat as many Cheez-Its as he wants. And he loves
22 JetBlue for that reason. I personally don't like

1 Cheez-Its, but this is how airlines work. Some
2 people love different airlines for different reasons.
3 It's a differentiated product.

4 Now, as to whether JetBlue has
5 differentiated itself by high quality, that's not
6 something I would agree with. And so, again, what
7 I've written in my report, and what is true about the
8 airline industry, is that there are different
9 dimensions of quality. Some are horizontal. And so
10 an example of a horizontal differentiation is, do you
11 have Cheez-Its. And some people like them, some
12 people don't.

13 There's also vertical differentiation. So
14 for instance, most of us might like more leg room,
15 all else equal. But you can't hold that all else
16 equal there, and the amount that people are willing
17 to pay for more leg room is going to vary across
18 people.

19 And so for that reason, I don't think you
20 can say that JetBlue has differentiated itself by
21 being higher quality. It certainly does offer a
22 product that's somewhat differentiated from other

1 low-cost carriers. And all airlines try to
2 differentiate themselves. This is a classic industry
3 that, as economists, we model as a differentiated
4 product industry with heterogenous preferences for
5 consumers.

6 Q. Would you agree that the JetBlue product
7 is a higher quality product than the Spirit product?

8 A. Well, again, there's -- it really depends
9 on what you want. So some aspects of quality --
10 there's not one definition of quality. And as an
11 economist, we want to be really precise about this.

12 So some people are going to value some of
13 the attributes on JetBlue. Other people are not
14 going to value them. Even within JetBlue, there's a
15 whole bunch of different products. So Blue Basic is
16 one of the products on JetBlue. Is that a -- is that
17 something that people value more than, for instance,
18 Spirit products?

19 Well, I showed evidence in my reply report
20 that people who could pick between Blue Basic and
21 Spirit, about half or a little more than half picked
22 Spirit over Blue Basic. So they're not thinking that

1 Blue Basic is a higher quality product. And this is
2 conditioning on Blue Basic being actually cheaper or
3 the same price as a Spirit product in that case.

4 So I think that, again, you know, saying
5 like is JetBlue higher quality than Spirit, that's
6 not how we think about it as economists. These are
7 markets with huge amounts of vertical differentiation
8 and horizontal differentiation, and different
9 willingness to pay for attributes.

10 And each of these airlines have a whole
11 bunch of different products. And they offer
12 segmented products. And these are points I discuss
13 throughout my reports, because they're just
14 fundamental to understanding competition in the
15 airline industry.

16 Q. So you would agree that we can't directly
17 compare the prices of a Spirit Airlines fare and a
18 JetBlue Blue Basic fare for a particular customer?

19 A. I wouldn't agree with that, in the sense,
20 we can do that comparison. And you know, and
21 especially for Spirit customers, you know, what -- I
22 think it's the CEO that I cite, Ted Christie, saying,

1 to that.

2 I also talked in my report about the
3 JetBlue effect, which is about them competing with
4 all the airlines they compete with.

5 Q. Do you agree that JetBlue's pricing
6 strategy is to stimulate demand by offering lower
7 fares, like other low cost carriers, but JetBlue also
8 offers superior service to many airlines, including
9 legacy airlines?

10 A. Well, that's a really broad statement.
11 And I think I would have to disagree with both parts
12 of it. So the first part is that, I think you said,
13 like, JetBlue offers lower fares than legacy
14 airlines. Well, it's going to depend on exactly the
15 route. And, you know, and the particular route and
16 the characteristics and the day.

17 So I showed one example, and this is from
18 my reply report, from section 6 of my reply report,
19 where the offered fares on JetBlue were similar to
20 legacy carriers on the same route. There are other
21 examples where JetBlue's going to have lower prices
22 than legacy carriers, but at least in this example,

1 in many of the routes, the majority of them, the
2 offered prices from JetBlue were similar to legacy
3 carriers.

4 I think the second part of your question
5 was whether JetBlue offered lower prices, but higher
6 quality. And I don't remember exactly higher quality
7 than whom. But again, as an economist looking at
8 this market, at this product that's very
9 differentiated, which is air travel, we can't think
10 about like JetBlue offering higher quality. Like,
11 some people are going to value the JetBlue amenities.
12 You know, there's my friend, my college roommate who
13 loves Cheez-Its. He thinks JetBlue is awesome
14 because he gets as many bags of Cheez-Its as he
15 wants.

16 Other people, they may not like JetBlue,
17 right? And so I think it really depends on the
18 person, the particular flight, the experience. All
19 of those are going to factor into what a given
20 customer is willing to pay for JetBlue.

21 Q. Do you agree that JetBlue is uniquely
22 disruptive?

1 A. Well, so disruptive is -- or maverick or
2 words like that. In economics, we think of these as
3 not like a fixed characteristic of firms, but as
4 related to the incentives that the firms have.

5 And so I think that JetBlue -- there is a
6 JetBlue effect. I document this. When JetBlue
7 enters on markets, prices go down. They don't go
8 down as much as when Spirit enters on markets, plane
9 for plane. JetBlue enters with a lot more frequency
10 than JetBlue -- 2.7 flights per day on average versus
11 Spirit's 1.7 flights per day. But JetBlue, when it
12 enters on markets, we see that the market average
13 prices do drop. And there's something about that.

14 Now, what I also showed in my reply report
15 is that JetBlue's effect on market prices is not as
16 strong as it used to be. And so if Dr. Hill went
17 back and took data going back to 2012, and looked at
18 JetBlue entry events. And what I showed is that
19 JetBlue's impact on prices is lower in the three
20 years before the pandemic than it was in the earlier
21 part of the last decade.

22 And I think what's happened over time, and

1 this is substantiated by documentary evidence from
2 JetBlue that I testified to earlier, is that JetBlue
3 is looking more like a legacy carrier. And so it has
4 had less of a disruptive influence, and less of an
5 influence on lowering prices than it used to a decade
6 ago.

7 Q. So you would not agree that JetBlue's high
8 quality service allows it to compete effectively
9 against legacy airlines in ways that other LCCs and
10 ULCCs cannot?

11 A. So again, like, that's such a broad
12 statement. Like, I have a friend that loves Alaska,
13 which is counted as an LCC. And he swears Alaska
14 more than other airlines. I was on a JetBlue flight
15 last year, and it was five hours late, and there was
16 pandemonium at National Airport. No one at JetBlue
17 seemed to know where everything was going with this.

18 And that didn't make me feel like JetBlue
19 is a high quality product, just that one experience.
20 And I'm not trying to disrespect JetBlue or the many
21 fine people that work there. But I'm just saying,
22 different customers have different experiences about

1 there's some incentives to reduce competition that
2 will transpire as a result of this merger. And
3 oftentimes, if I was analyzing a merger, I might stop
4 there, but because of the specifics of this deal the
5 parties have explained how they plan to use Spirit,
6 which is to shut down Spirit and repurpose the planes
7 to expand JetBlue.

8 And so in my net harm model, I want to
9 take seriously this deal rationale and the
10 efficiencies that stem from the fact that JetBlue is
11 going to use these Spirit planes in the JetBlue
12 business model.

13 So because of that, what I'm doing is I'm
14 accounting both for the anti-competitive effects of
15 this merger, but I'm also accounting for the
16 efficiencies that the merging parties think will
17 arise from this merger. And so I'm not sure how you
18 define the competitive effects, but it does include
19 the efficiencies. And that's why it's a net harm
20 model, and not a gross harm model.

21 Q. So your econometric model of net harm
22 predicts the competitive effects of the merger,